

**COLO-NESCO  
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

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COLO-NESCO COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**BOARD OF EDUCATION**

(Before September, 2005 Election)

Greg Voga	President	2007
John Fuller		2006
Paul Sparrow		2005
Paul Mens		2006
Kim Nelson		2006
Dennis Vaughn		2007
Mark Johnson		2005

(After September, 2005 Election)

John Fuller	President	2006
Greg Voga		2007
Casey Speake		2008
Paul Mens		2006
Kim Nelson		2006
Dennis Vaughn		2007
Brian Lawson		2008

**SCHOOL OFFICIALS**

Gary Pillman	Superintendent
Corinne Olson	District Secretary/ Treasurer

## Independent Auditor's Report

To The Board of Education of the  
Colo-Nesco Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Colo-Nesco Community School District, McCallsburg, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Colo-Nesco Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2006 on our consideration of Colo-Nesco Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Colo-Nesco Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report. The financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**BRUCE D. FRINK**  
**Certified Public Accountant**

November 7, 2006

## **COLO-NESCO COMMUNITY SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Colo-Nesco Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

#### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$4,538,191 in fiscal year 2005 to \$4,558,152 in fiscal year 2006. There were no areas of significant change.
- General Fund expenditures increased from \$4,159,897 in fiscal year 2005 to \$4,236,877 in fiscal year 2006. This increase is really insignificant as salary, benefits, and health insurance costs have continued to rise but with attrition of staff this has kept the costs down. The General Fund balance has increased due to a reduction in discretionary expenditures.
- The interest earnings in the General Fund have increased from \$20,759 in fiscal 2005 to \$38,716 due to carrying a higher balance in the account plus an increase in interest rates.
- The total expenditures in the Local Option Sales/Service Tax in the 2005-06 fiscal year was \$550,036. The majority of the money was spent on infrastructure projects.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: management's discussion and analysis (this section), the general purpose financial statements and required supplementary information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1  
Colo-Nesco Community School District

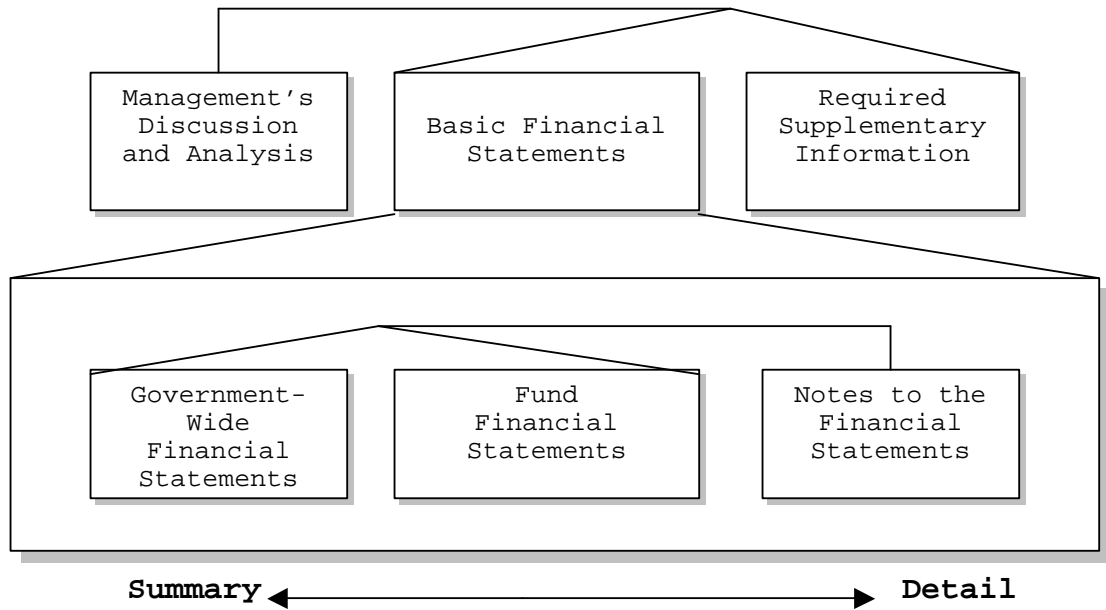


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

<b>Figure A-2</b>				
<b>Major Features of the Government-wide and Fund Financial Statements</b>				
	<b>Government-wide Statements</b>	<b>Fund Financial Statements</b>		
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses; food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid



## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- **Business type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, and Debt Service Fund. Most of the District's basic services are included here, such as regular education, special education, building and grounds maintenance, transportation, and administration. Most of these activities are funded with property taxes and state aid finance.

- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Agency Funds, monies held by the District for outside groups.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

#### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005.

**Figure A-3**  
**Condensed Statement of Net Assets**  
**(expressed in thousands)**

	Governmental Activities		Business Type Activities		Total School District		Percentage Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Current assets	3,994	3,825	33	15	4,027	3,840	4.87%
Capital assets	3,073	2,803	1	2	3,074	2,805	9.59%
<b>Total assets</b>	<u>7,067</u>	<u>6,628</u>	<u>34</u>	<u>17</u>	<u>7,101</u>	<u>6,645</u>	<u>6.86%</u>
Current liabilities	2,045	2,185	97	89	2,142	2,274	-5.80%
Non-current liabilities	-	-	-	-	-	-	0.00%
<b>Total liabilities</b>	<u>2,045</u>	<u>2,185</u>	<u>97</u>	<u>89</u>	<u>2,142</u>	<u>2,274</u>	<u>-5.80%</u>
<b>Net Assets</b>							
Invested in capital assets, net of related debt	3,073	2,803	1	2	3,074	2,805	9.59%
Restricted	647	664	-	-	647	664	-2.56%
Unrestricted	1,302	976	(64)	(74)	1,238	902	37.25%
<b>Total net assets</b>	<u>5,022</u>	<u>4,443</u>	<u>(63)</u>	<u>(72)</u>	<u>4,959</u>	<u>4,371</u>	<u>13.45%</u>

Unrestricted net assets increased greatly due primarily to the increase in the General Fund. This was accomplished by staff attrition and reduction in discretionary spending. The Capital Projects Fund accounted for the decrease in the restricted assets and the increase in capital assets as funds from the collection of local option sales taxes were used for infrastructure projects.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2006 and 2005.

**Figure A-4**  
**Change in Net Assets**  
**(expressed in thousands)**

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Revenues:							
Program revenues:							
Charges for service and sales	148	181	304	333	452	514	-12.06%
Operating grants, contributions and restricted interest	720	874	110	73	830	947	-12.35%
General revenues:							
Property tax	1,750	1,769	-	-	1,750	1,769	-1.07%
Income surtax	250	265	-	-	250	265	-5.66%
Local option sales tax	464	573	-	-	464	573	-19.02%
Unrestricted state grants	1,967	1,892	-	-	1,967	1,892	3.96%
Unrestricted investment earnings	39	21	-	-	39	21	85.71%
Other	29	12	-	-	29	12	141.67%
Total revenues	<u>5,367</u>	<u>5,587</u>	<u>414</u>	<u>406</u>	<u>5,781</u>	<u>5,993</u>	<u>-3.54%</u>
Program expenses:							
Governmental activities:							
Instruction	2,870	2,983	-	-	2,870	2,983	-3.79%
Support Services	1,468	1,242	-	-	1,468	1,242	18.20%
Non-instructional programs	3	3	406	387	409	390	4.87%
Other expenses	447	362	-	-	447	362	23.48%
Total expenses	<u>4,788</u>	<u>4,590</u>	<u>406</u>	<u>387</u>	<u>5,194</u>	<u>4,977</u>	<u>4.36%</u>
Change in net assets	<u>579</u>	<u>997</u>	<u>8</u>	<u>19</u>	<u>587</u>	<u>1,016</u>	<u>-42.22%</u>

Property tax and unrestricted state grants account for 64% of the total revenue. The District's expenses primarily related to instruction and support services, which account for 84% of the total expenses.

## GOVERNMENTAL ACTIVITIES

Revenues for governmental activities were \$5,367,554 and expenses were \$4,788,275.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

**Figure A-5**  
**Total and Net Cost of Governmental Activities**  
(expressed in thousands)

	Total Cost of Services			Net Cost of Services		
			Change			Change
	2006	2005	2005-2006	2006	2005	2005-2006
	\$	\$		\$	\$	
Instruction	2,870	2,983	-3.79%	2,205	2,101	4.95%
Support Services	1,468	1,242	18.20%	1,451	1,228	18.16%
Non-instructional programs	3	3	0.00%	3	3	0.00%
Other expenses	<u>447</u>	<u>362</u>	<u>23.48%</u>	<u>261</u>	<u>203</u>	<u>28.57%</u>
Totals	<u>4,788</u>	<u>4,590</u>	<u>4.31%</u>	<u>3,920</u>	<u>3,535</u>	<u>10.89%</u>

- The cost financed by users of the District's programs was \$148,329.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$412,857.
- The net cost of governmental activities was financed with \$1,750,255 in property tax, \$1,966,836 in state foundation aid, and \$38,716 in interest income.

#### **Proprietary-type Funds**

Revenues for the District's School Nutrition Fund were \$229,978 and expenses were \$226,913. The revenues include charges for services, contributions, and federal and state reimbursements. The fund balance increased by over \$3,000 during the year.

The District's Child Care Fund increased by almost \$5,000. Increased revenues while being able to monitor labor costs accounted for the positive result. This fund reduced its deficit each of the past three years.

#### **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The Colo-Nesco Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$5,022,314, which is greater than last year's ending fund balance of \$4,443,035. The largest portion of this increase was in the General Fund.

#### **Governmental Fund Highlights**

Several factors contributed to the small increase of the fund balance in the District's governmental funds. Some of these factors were unexpected; some were deliberately planned.

- The District generates over \$250,000 in instructional support levy revenues. These monies are being used to strengthen the General Fund balance as well as preserving and expanding educational opportunities.
- Increased spending was almost entirely attributable to instruction and support service programs.
- Increases in salaries were offset by not replacing retirees and reducing discretionary spending.

## **Proprietary Fund Highlights**

School Nutrition Fund net assets increased by over \$3,000 in Fiscal 2006. Child Care Fund net assets increased primarily due to increased revenue as usage of the facility continues to grow. At current rates, these funds will be operating in the black in a matter of years thus reducing dependency on the governmental funds.

## **BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

It is the District's practice, as is in most Iowa school district, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year.

Actual revenues were \$55,000 greater than budgeted, primarily due to increased federal funding.

## **CAPITAL ASSETS**

The District has invested more than \$6.5 million by the end of fiscal year 2006 in a broad range of capital assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. The District made improvements and updated equipment at all three facilities during the year. Total depreciation expenses for the year exceeded \$150,000.

## **Long Term Debt**

The District had no outstanding debt as of June 30, 2006.

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The SILO tax was passed in September 2002 and money began to be received by the District in September 2003 and the district continues to receive this money. It has been used for a number of needed facility improvement projects.
- The Instructional Support Levy was passed in 2001 and money began to be received by the District in the 2003-04 school year and the district continues to receive this money.
- The District has experienced declining enrollment the past several years and this has forced and continues to force us to reduce our work force.
- Allowable growth of 4% is inadequate to fund salary increases and ever changing classroom needs.
- Once again unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and GASB 34", to name a few.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Gary Pillman, Superintendent, Colo-Nesco Community School District, 400 Latrobe Avenue, McCallsburg, IA 50154.

## Basic Financial Statements

## COLO-NESCO COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	2,080,640	8,917	2,089,557
Receivables:			
Property tax:			
Current year	30,743	-	30,743
Succeeding year	1,561,262	-	1,561,262
Income surtax - succeeding year	210,048	-	210,048
Interfund receivable	66,450	-	66,450
Due from other governments	45,600	-	45,600
Other receivables	-	18,661	18,661
Inventories	-	4,549	4,549
Capital assets, net of accumulated depreciation	3,072,613	1,468	3,074,081
<b>Total assets</b>	<u>7,067,356</u>	<u>33,595</u>	<u>7,100,951</u>
<b>Liabilities</b>			
Accounts payable	117,580	-	117,580
Salaries and benefits payable	364,834	30,849	395,683
Interfund payables	-	66,450	66,450
Retainage payable	1,366	-	1,366
Deferred revenue:			
Succeeding year property tax	1,561,262	-	1,561,262
<b>Total liabilities</b>	<u>2,045,042</u>	<u>97,299</u>	<u>2,142,341</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	3,072,613	1,468	3,074,081
Restricted for:			
Management levy	389,739	-	389,739
Student activities	61,527	-	61,527
Physical plant and equipment levy	116,399	-	116,399
Capital projects	79,796	-	79,796
Unrestricted	1,302,240	(65,172)	1,237,068
<b>Total net assets</b>	<u>5,022,314</u>	<u>(63,704)</u>	<u>4,958,610</u>

See notes to financial statements.

## COLO-NESCO COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

	Program Revenues					
		Charges for	Operating Grants, Contributions and Restricted Interest	Governmental	Business Type	Total
	Expenses	Service		Activities	Activities	
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:	<u>2,869,755</u>	<u>148,329</u>	<u>516,495</u>	<u>(2,204,931)</u>	<u>-</u>	<u>(2,204,931)</u>
Support services:						
Student services	17,463	-	-	(17,463)	-	(17,463)
Instructional staff services	148,152	-	-	(148,152)	-	(148,152)
Administration services	649,627	-	-	(649,627)	-	(649,627)
Operation and maintenance of plant services	459,601	-	17,492	(442,109)	-	(442,109)
Transportation services	<u>193,857</u>	<u>-</u>	<u>-</u>	<u>(193,857)</u>	<u>-</u>	<u>(193,857)</u>
	<u>1,468,700</u>	<u>-</u>	<u>17,492</u>	<u>(1,451,208)</u>	<u>-</u>	<u>(1,451,208)</u>
Non-instructional programs:						
Community service & education	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>(3,000)</u>	<u>-</u>	<u>(3,000)</u>
Other expenditures:						
AEA flowthrough	160,011	-	160,011	-	-	-
Facilities acquisition and construction	132,893	-	25,983	(106,910)	-	(106,910)
Depreciation (unallocated)*	<u>153,916</u>	<u>-</u>	<u>-</u>	<u>(153,916)</u>	<u>-</u>	<u>(153,916)</u>
	<u>446,820</u>	<u>-</u>	<u>185,994</u>	<u>(260,826)</u>	<u>-</u>	<u>(260,826)</u>
Total governmental activities	4,788,275	148,329	719,981	(3,919,965)	-	(3,919,965)



COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues					
		Charges for	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Expenses	Service					
\$	\$	\$	\$	\$	\$	\$
Business type activities:						
Non-instructional programs:						
Proprietary funds	405,730	304,224	109,497	-	7,991	7,991
Total	<u>5,194,005</u>	<u>452,553</u>	<u>829,478</u>	<u>(3,919,965)</u>	<u>7,991</u>	<u>(3,911,974)</u>
General revenues:						
Property tax levied for:						
General purposes				1,582,485	-	1,582,485
Management				117,935	-	117,935
Capital outlay				49,835	-	49,835
Income surtax				250,008	-	250,008
Local option sales tax				464,462	-	464,462
Unrestricted state grants				1,966,836	-	1,966,836
Unrestricted investment earnings				38,716	-	38,716
Other				28,967	-	28,967
Total general revenue				<u>4,499,244</u>	<u>-</u>	<u>4,499,244</u>
Change in net assets				579,279	7,991	587,270
Net assets beginning of year				<u>4,443,035</u>	<u>(71,695)</u>	<u>4,371,340</u>
Net assets end of year				<u>5,022,314</u>	<u>(63,704)</u>	<u>4,958,610</u>

\* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

## COLO-NESCO COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

	General	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments	1,382,040	66,527	632,073	2,080,640
Receivables:				
Property tax:				
Current year	27,764	-	2,979	30,743
Succeeding year	1,513,952	-	47,310	1,561,262
Income surtax - succeeding year	210,048	-	-	210,048
Interfund receivable	66,450	-	-	66,450
Due from other governments	5,003	40,597	-	45,600
<b>Total assets</b>	<b>3,205,257</b>	<b>107,124</b>	<b>682,362</b>	<b>3,994,743</b>
<b>Liabilities and Fund Balance</b>				
Liabilities:				
Accounts payable	24,231	25,962	67,387	117,580
Salaries and benefits payable	364,834	-	-	364,834
Retainage payable	-	1,366	-	1,366
Deferred revenue:				
Succeeding year property tax	1,513,952	-	47,310	1,561,262
Succeeding year income surtax	210,048	-	-	210,048
Total liabilities	2,113,065	27,328	114,697	2,255,090
Fund balances:				
Reserved for capital projects	-	79,796	-	79,796
Unreserved	1,092,192	-	567,665	1,659,857
Total fund balance	1,092,192	79,796	567,665	1,739,653
<b>Total liabilities and fund balances</b>	<b>3,205,257</b>	<b>107,124</b>	<b>682,362</b>	<b>3,994,743</b>

See notes to financial statements.

## COLO-NESCO COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2006

Total fund balances of governmental funds (Exhibit C)	\$ 1,739,653
Amounts reported for governmental activities in the statement of net assets are different because:	
Income surtax receivable at June 30, 2006 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	210,048
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	<u>3,072,613</u>
Net assets of governmental activities (Exhibit A)	<u>\$ 5,022,314</u>

See notes to financial statements.

## COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Fund Types

Year ended June 30, 2006

	General	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$
Revenues:				
Local sources				
Local tax	1,827,545	464,462	167,770	2,459,777
Tuition	148,329	-	-	148,329
Other	67,683	983	146,130	214,796
State sources	2,385,930	-	109	2,386,039
Federal sources	128,665	25,000	-	153,665
Total revenues	<u>4,558,152</u>	<u>490,445</u>	<u>314,009</u>	<u>5,362,606</u>
Expenditures:				
Current:				
Instruction:	<u>2,732,345</u>	<u>-</u>	<u>142,894</u>	<u>2,875,239</u>
Support services:				
Student services	17,463	-	-	17,463
Instructional staff services	145,440	-	2,712	148,152
Administration services	566,912	6,088	76,627	649,627
Operation and maintenance of plant services	418,015	-	41,586	459,601
Transportation services	193,691	-	166	193,857
	<u>1,341,521</u>	<u>6,088</u>	<u>121,091</u>	<u>1,468,700</u>
Non-instructional programs:				
Community service & education	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>3,000</u>
Other expenditures:				
AEA flowthrough	160,011	-	-	160,011
Facilities acquisition and construction	-	550,036	1,125	551,161
	<u>160,011</u>	<u>550,036</u>	<u>1,125</u>	<u>711,172</u>
Total expenditures	<u>4,236,877</u>	<u>556,124</u>	<u>265,110</u>	<u>5,058,111</u>
Net change in fund balances	321,275	(65,679)	48,899	304,495
Fund balances beginning of year	<u>770,917</u>	<u>145,475</u>	<u>518,766</u>	<u>1,435,158</u>
Fund balances end of year	<u><u>1,092,192</u></u>	<u><u>79,796</u></u>	<u><u>567,665</u></u>	<u><u>1,739,653</u></u>

See notes to financial statements.

**COLO-NESCO COMMUNITY SCHOOL DISTRICT**

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities

Year ended June 30, 2006

**Net change in fund balances - total governmental funds (Exhibit E)** \$ 304,495

**Amounts reported for governmental activities in the  
statement of activities are different because:**

Income surtax receivable at June 30, 2006 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities. 4,948

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	423,752	
Depreciation expense	<u>(153,916)</u>	<u>269,836</u>

**Change in net assets of governmental activities (Exhibit B)** \$ 579,279

See notes to financial statements.

## COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Statement of Net Assets  
Proprietary Funds

June 30, 2006

	School Nutrition	Child Care	Total
	\$	\$	
<b>Assets</b>			
Cash and pooled investments	8,917	-	8,917
Other receivables	-	18,661	18,661
Inventories	3,421	1,128	4,549
Capital assets, net of accumulated depreciation	<u>1,468</u>	<u>-</u>	<u>1,468</u>
<b>Total assets</b>	<u>13,806</u>	<u>19,789</u>	<u>33,595</u>
<b>Liabilities</b>			
Accrued salary and benefits	17,025	13,824	30,849
Interfund payable	<u>-</u>	<u>66,450</u>	<u>66,450</u>
<b>Total liabilities</b>	<u>17,025</u>	<u>80,274</u>	<u>97,299</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,468	-	1,468
Unrestricted	<u>(4,687)</u>	<u>(60,485)</u>	<u>(65,172)</u>
<b>Total net assets</b>	<u>(3,219)</u>	<u>(60,485)</u>	<u>(63,704)</u>

See notes to financial statements.

## COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds

Year ended June 30, 2006

	School Nutrition	Child Care	Total
	\$		
Operating revenue:			
Local sources:			
Charges for services	<u>155,095</u>	<u>149,129</u>	<u>304,224</u>
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	81,889	-	81,889
Benefits	25,875	-	25,875
Services	2,766	-	2,766
Supplies	115,894	-	115,894
Depreciation	<u>489</u>	<u>-</u>	<u>489</u>
	<u>226,913</u>	<u>-</u>	<u>226,913</u>
Other enterprise operations:			
Salaries	-	140,415	140,415
Benefits	-	23,426	23,426
Services	-	303	303
Supplies	-	14,658	14,658
Other	<u>-</u>	<u>15</u>	<u>15</u>
	<u>-</u>	<u>178,817</u>	<u>178,817</u>
Total operating expenses	<u>226,913</u>	<u>178,817</u>	<u>405,730</u>
Operating (loss)	<u>(71,818)</u>	<u>(29,688)</u>	<u>(101,506)</u>
Non-operating revenues:			
Local sources	170	33,361	33,531
State sources	2,655	1,303	3,958
Federal sources	<u>72,008</u>	<u>-</u>	<u>72,008</u>
	<u>74,833</u>	<u>34,664</u>	<u>109,497</u>
Change in net assets	3,015	4,976	7,991
Net assets beginning of year	<u>(6,234)</u>	<u>(65,461)</u>	<u>(71,695)</u>
Net assets end of year	<u><u>(3,219)</u></u>	<u><u>(60,485)</u></u>	<u><u>(63,704)</u></u>

See notes to financial statements.

## COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2006

	School Nutrition	Child Care	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of services	155,212	135,895	291,107
Cash payments to employees for services	(107,957)	(162,154)	(270,111)
Cash payments to suppliers for goods or services	(107,205)	(16,647)	(123,852)
Net cash provided by (used in) operating activities	(59,950)	(42,906)	(102,856)
Cash flows from non-capital financing activities:			
Local grants and contributions	170	33,361	33,531
State grants received	2,656	1,303	3,959
Federal grants received	60,337	-	60,337
Net cash provided by non-capital financing activities	63,163	34,664	97,827
Net increase (decrease) in cash and cash equivalents	3,213	(8,242)	(5,029)
Cash and cash equivalents beginning of year	5,704	(58,208)	(52,504)
Cash and cash equivalents end of year	8,917	(66,450)	(57,533)
<b>Reconciliation of operating income (loss) to net cash used in operating activities:</b>			
Operating income (loss)	(71,818)	(29,688)	(101,506)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	489	-	489
Commodities used	11,671	-	11,671
Decrease (increase) in other receivables	117	(13,234)	(13,117)
Decrease (increase) in inventory	85	(1,128)	(1,043)
Increase (decrease) in accounts payable	(301)	(543)	(844)
Increase (decrease) in accrued payroll and benefits	(193)	1,687	1,494
	(59,950)	(42,906)	(102,856)
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:</b>			
Current assets:			
Cash	8,917	-	8,917
Current liabilities:			
Interfund payable	-	66,450	66,450

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2006, the District received federal commodities valued at \$11,671.

See notes to financial statements.



## COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2006

	Agency Funds
	<u>\$</u>
<b>Assets</b>	
Cash	<u>2,147</u>
<b>Total assets</b>	<u>2,147</u>
<b>Liabilities:</b>	
Other payables	<u>2,147</u>
<b>Total liabilities</b>	<u>2,147</u>

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Colo-Nesco Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Colo, McCallsburg and Zearing, Iowa, and agricultural area in Story, Marshall and Hardin Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Colo-Nesco Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Colo-Nesco Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Story County Assessor Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets*, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition and Child Care Funds. These funds are used to account for the food service and child care operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for other groups. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of its operations.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Balance

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2006.

Fund Balance - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures did exceed the amended budget amount in any of the four functions.

### (2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2006.

### (3) **Capital Assets**

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	<u>34,857</u>	<u>-</u>	<u>-</u>	<u>34,857</u>
Capital assets being depreciated:				
Land improvements	371,425	-	-	371,425
Buildings	2,963,910	418,268	-	3,382,178
Furniture and Equipment	<u>2,797,422</u>	<u>5,484</u>	<u>-</u>	<u>2,802,906</u>
Total capital assets being depreciated	<u>6,132,757</u>	<u>423,752</u>	<u>-</u>	<u>6,556,509</u>
Less accumulated depreciation for:				
Land improvements	119,619	2,264	-	121,883
Buildings	1,572,281	55,580	-	1,627,861
Furniture and Equipment	<u>1,672,937</u>	<u>96,072</u>	<u>-</u>	<u>1,769,009</u>
Total accumulated depreciation	<u>3,364,837</u>	<u>153,916</u>	<u>-</u>	<u>3,518,753</u>
Total capital assets being depreciated, net	<u>2,767,920</u>	<u>269,836</u>	<u>-</u>	<u>3,037,756</u>
Governmental activities, capital assets, net	<u>2,802,777</u>	<u>269,836</u>	<u>-</u>	<u>3,072,613</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	5,875	0	-	5,875
Less accumulated depreciation	<u>3,917</u>	<u>490</u>	<u>-</u>	<u>4,407</u>
Business type activities capital assets, net	<u>1,958</u>	<u>(490)</u>	<u>-</u>	<u>1,468</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Unallocated 153,916

Business Type activities:

Food service operations 490

#### (4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$144,159, \$147,270, and \$144,357 respectively, equal to the required contributions for each year.

#### (5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$160,011 for year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

#### (6) Financial Condition

The District's Enterprise Fund - School Nutrition had a net assets deficit of \$3,219 at June 30, 2006. The District's Enterprise Fund - Child Care had a net assets deficit of \$60,485 at June 30, 2006.

#### (7) Risk Management

Colo-Nesco Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Commitments**

The District has approved a contract for \$137,299 for remodeling to the middle school facility.

The following amounts are as of June 30, 2006:

Total contract	\$137,299
Completed to date	27,328
Retainage	1,366
Payable	25,962
Balance to complete	\$109,971

**(9) Due From and Due to Other Funds**

The detail of Interfund receivables/payable as of June 30, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Enterprise:	
	Child Care	<u>\$66,450</u>

This is to cover a cash deficit in a joint checking account.



## Required Supplementary Information

**COLO-NESCO COMMUNITY SCHOOL DISTRICT**

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund  
Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual
	Actual	Actual	Actual	Original	Final	Variance -
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,822,902	337,755	3,160,657	3,090,304	3,090,304	70,353
State sources	2,386,039	3,958	2,389,997	2,396,101	2,396,101	(6,104)
Federal sources	153,665	72,008	225,673	234,633	234,633	(8,960)
Total revenues	<u>5,362,606</u>	<u>413,721</u>	<u>5,776,327</u>	<u>5,721,038</u>	<u>5,721,038</u>	<u>55,289</u>
Expenditures:						
Instruction	2,875,239	-	2,875,239	3,216,123	3,216,123	340,884
Support services	1,468,700	-	1,468,700	1,548,423	1,548,423	79,723
Non-instructional programs	3,000	405,730	408,730	383,343	433,343	24,613
Other expenditures	711,172	-	711,172	812,895	992,283	281,111
Total expenditures	<u>5,058,111</u>	<u>405,730</u>	<u>5,463,841</u>	<u>5,960,784</u>	<u>6,190,172</u>	<u>726,331</u>
Excess (deficiency) of revenues over (under) expenditures	304,495	7,991	312,486	(239,746)	(469,134)	781,620
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	304,495	7,991	312,486	(239,746)	(469,134)	781,620
Balance beginning of year	<u>1,435,158</u>	<u>(71,695)</u>	<u>1,363,463</u>	<u>868,881</u>	<u>868,881</u>	<u>494,582</u>
Balance end of year	<u>1,739,653</u>	<u>(63,704)</u>	<u>1,675,949</u>	<u>629,135</u>	<u>399,747</u>	<u>1,276,202</u>

See accompanying independent auditor's report.

**COLO-NESCO COMMUNITY SCHOOL DISTRICT**

**Notes to Required Supplementary Information - Budgetary Reporting**

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District adopted one budget amendment during the year increasing allowable expenditures by \$229,338.

During the year ended June 30, 2006, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

## Other Supplementary Information

## COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Special Revenue Funds

June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments	455,015	61,527	115,531	632,073
Property tax receivable:				
Current year	2,111	-	868	2,979
Succeeding year	-	-	47,310	47,310
<b>Total assets</b>	<u>457,126</u>	<u>61,527</u>	<u>163,709</u>	<u>682,362</u>
<b>Liabilities and Fund Balance</b>				
Liabilities:				
Accounts payable	67,387	-	-	67,387
Deferred revenue:				
Succeeding year property tax	-	-	47,310	47,310
	<u>67,387</u>	<u>-</u>	<u>47,310</u>	<u>114,697</u>
Fund balance:				
Unreserved fund balance	<u>389,739</u>	<u>61,527</u>	<u>116,399</u>	<u>567,665</u>
<b>Total liabilities and fund balance</b>	<u>457,126</u>	<u>61,527</u>	<u>163,709</u>	<u>682,362</u>

See accompanying independent auditor's report.

## COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Special Revenue Funds

Year ended June 30, 2006

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	117,935	-	49,835	167,770
Other	13,959	128,747	3,424	146,130
State sources	75	-	34	109
Total revenues	<u>131,969</u>	<u>128,747</u>	<u>53,293</u>	<u>314,009</u>
Expenditures:				
Instruction:	17,645	125,249	-	142,894
Support services:				
Student support	-	-	-	-
Instructional support	2,712	-	-	2,712
Administration services	76,402	-	225	76,627
Plant operation and maintenance	41,316	-	270	41,586
Student transportation	166	-	-	166
Other expenditures:				
Facility acquisition and construction services	<u>-</u>	<u>-</u>	<u>1,125</u>	<u>1,125</u>
Total expenditures	<u>138,241</u>	<u>125,249</u>	<u>1,620</u>	<u>265,110</u>
Excess (deficiency) of revenues over (under) expenditures	(6,272)	3,498	51,673	48,899
Other financing (uses):				
Operating transfers (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(6,272)	3,498	51,673	48,899
Fund balances beginning of year	<u>396,011</u>	<u>58,029</u>	<u>64,726</u>	<u>518,766</u>
Balance end of year	<u>389,739</u>	<u>61,527</u>	<u>116,399</u>	<u>567,665</u>

See notes to financial statements.

## COLO-NESCO COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
All Athletics	10,302	7,032	6,087	11,247
Basketball	22,513	14,168	11,804	24,877
Track	235	3,749	3,490	494
Cross Country	(829)	791	(13)	(25)
Golf	(433)	23	994	(1,404)
Football	2,714	12,222	12,958	1,978
Soccer	(707)	6,828	6,727	(606)
Baseball	(496)	3,763	2,639	628
Wrestling	1,000	1,301	1	2,300
Volleyball	5,412	3,745	4,489	4,668
Softball	(1,740)	4,426	2,408	278
Drama	4,786	2,586	3,703	3,669
Musical	956	-	-	956
Vocal/Instrumental	(234)	1,711	2,804	(1,327)
Band Uniforms	(106)	106	-	-
HS Student Pictures	1,521	-	-	1,521
Student Council	4,207	2,272	2,263	4,216
C-N FFA	3,946	12,792	15,139	1,599
Yearbook	(11,863)	3,309	5,156	(13,710)
Cheerleading	682	1,318	1,001	999
Band Resale	(2,137)	101	507	(2,543)
Spanish Club	5,414	1,100	798	5,716
Art Club	1,640	1,356	2,362	634
Anglo-Norman Club	74	-	156	(82)
C-N Drill Team	(1,658)	-	81	(1,739)
Flag Team	-	1,677	1,573	104
SADD	-	267	-	267
Class of 2002	125	-	125	-
Class of 2003	9	-	9	-
Class of 2004	688	-	688	-
Class of 2005	1,015	-	1,015	-
Class of 2006	970	1,053	2,351	(328)
Class of 2007	315	11,820	9,925	2,210
MS Student Pictures	160	144	-	304
MS Student Activities	(2,160)	16,622	13,294	1,168
MS Mall of America	67	-	-	67
MS Band Resale	(778)	364	2,757	(3,171)
MS Music Fund	2,359	6,198	4,173	4,384
Colo Publication	(30)	111	-	81
Elementary Student Pictures	1,554	1,791	1,450	1,895
Burg Publication	210	-	210	-
Elementary Student Activities	(349)	-	19	(368)
Malls 4 Schools	2,559	148	919	1,788
McCallsburg Student Birthday Club	-	50	-	50
District Wide Field Trips	-	1,410	1,187	223
Interest	6,116	2,393	-	8,509
Totals	58,029	128,747	125,249	61,527

See notes to financial statements.

## COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Changes in Assets and Liabilities  
Agency Funds

Year ended June 30, 2006

	<u>Benevolence</u>	<u>Trees Forever</u>	<u>King Music Memorial</u>	<u>MS Library Fund</u>	<u>Playground</u>	<u>Nancy Dole Memorial Fund</u>	<u>Preschool Child Care</u>	<u>Memorial Fund</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance beginning of year	<u>524</u>	<u>148</u>	<u>436</u>	<u>1</u>	<u>1,342</u>	<u>668</u>	<u>1,759</u>	<u>18</u>	<u>4,896</u>
Additions:									
Contributions	<u>100</u>	<u>-</u>	<u>667</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>755</u>	<u>-</u>	<u>1,522</u>
Deductions:									
Miscellaneous	<u>322</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,342</u>	<u>666</u>	<u>1,941</u>	<u>-</u>	<u>4,271</u>
Balance end of year	<u><u>302</u></u>	<u><u>148</u></u>	<u><u>1,103</u></u>	<u><u>1</u></u>	<u><u>-</u></u>	<u><u>2</u></u>	<u><u>573</u></u>	<u><u>18</u></u>	<u><u>2,147</u></u>

See accompanying independent auditor's report.



## COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Tax Revenues  
All Funds

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$	\$	\$	\$
Local sources:				
General	1,827,545	1,698,615	1,792,277	1,935,849
Special revenue	167,770	130,319	130,839	287,754
Capital projects	<u>464,462</u>	<u>573,474</u>	<u>416,128</u>	<u>-</u>
	<u>2,459,777</u>	<u>2,402,408</u>	<u>2,339,244</u>	<u>2,223,603</u>
State sources:				
General	2,385,930	2,443,338	2,182,239	2,242,538
Special revenue	109	80	85	89
Enterprise	<u>3,958</u>	<u>2,728</u>	<u>2,703</u>	<u>31,225</u>
	<u>2,389,997</u>	<u>2,446,146</u>	<u>2,185,027</u>	<u>2,273,852</u>
Federal sources:				
General	128,665	179,857	158,876	148,015
Enterprise	<u>72,008</u>	<u>70,493</u>	<u>65,417</u>	<u>66,078</u>
	<u>200,673</u>	<u>250,350</u>	<u>224,293</u>	<u>214,093</u>
Total	<u>5,050,447</u>	<u>5,098,904</u>	<u>4,748,564</u>	<u>4,711,548</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

To the Board of Education of the  
Colo-Nesco Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Colo-Nesco Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 7, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Colo-Nesco Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-I-A is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Laurens-Marathon Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Colo-Nesco Community School District and other parties to whom Colo-Nesco Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Colo-Nesco Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

**BRUCE D. FRINK**  
**Certified Public Accountant**

November 7, 2006

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

06-I-A      SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

**Part II: Other Findings Related to Required Statutory Reporting:**

- 06-II-A      Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2006.
- 06-II-B      Certified Budget - Expenditures for the year ended June 30, 2006, did not exceed the amended certified budget amounts in any of the four functions.
- 06-II-C      Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 06-II-D      Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 06-II-E      Business Transactions - No business transactions between the District and District officials or employees were noted.
- 06-II-F      Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 06-II-G      Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 06-II-H      Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

**Part II: Other Findings Related to Required Statutory Reporting:**  
**(continued):**

06-II-I      Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

06-II-J      Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

06-II-K      Financial Condition - At June 30, 2006, the District's Student Activity Account had several deficit accounts, the School Nutrition Fund had net assets deficit of \$3,219 and the Child Care Fund had a net assets deficit of \$60,485. Substantial progress was noted during the past fiscal year.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits in order to return the District to a sound financial condition. Significant progress was noted in both funds during the current fiscal year.

Response - We will continue to monitor these accounts.

Conclusion - Response accepted.